



DATE ISSUED: April 19, 2006 REPORT NO. CCDC-06-13

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of April 25, 2006

SUBJECT: Centre City Redevelopment Project Subordinate Tax Allocation Bonds,
Series 2006A and Tax Allocation Housing Bonds, Series 2006B - General

REFERENCE: Preliminary Official Statement ("POS")
Continuing Disclosure Agreements (Appendix F of POS)
Trust Indentures
Purchase Contract

*(See Separate Item on City Council Agenda Authorizing the Agency to Issue
Centre City Redevelopment Project Tax Allocation Bonds)*

REQUESTED ACTION: Should the Redevelopment Agency approve the issuance of Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2006A ("Series 2006A") and Tax Allocation Housing Bonds, Series 2006B ("Series 2006B") in an amount not to exceed \$79 million and \$35 million respectively, producing net proceeds of approximately \$70 million for project activities and \$30 million for low- and moderate-income housing activities?

STAFF RECOMMENDATION: It is recommended that the Redevelopment Agency approve the issuance of Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2006A ("Series 2006A") and Tax Allocation Housing Bonds, Series 2006B ("Series 2006B") in an amount not to exceed \$79 million and \$35 million respectively, producing net proceeds of approximately \$70 million for project activities and \$30 million for low- and moderate-income housing activities.

SUMMARY: The Agency is authorized to issue bonds for the purpose of financing the costs of a redevelopment project pursuant to Part I commencing with Section 33000 of Division 24 of the California Health and Safety Code of the State of California.

The Fiscal Year 2006 ("FY06") Budget includes various public improvements for the downtown area including the acquisition of land and development of community parks and fire stations, design costs associated with the North Embarcadero, development of a Pedestrian Bridge, at-grade track improvements at Park Boulevard and Harbor Drive, a provision to fund a portion of the Downtown Main Library, street lights and other public improvements. To facilitate a portion of the funding for the FY06 Budget, leveraging the increased flow of tax increment is appropriate and needed.

In August 2002, the City Council approved the concept of leveraging the Agency's 20% Low and Moderate Income Housing Funds to create up to \$55 million in affordable housing financing to fund

the Notice of Funding Availability. CCDC's commitment was to fund a total \$40 million toward this program. In June 2003, CCDC funded approximately \$7 million of its \$40 million commitment from the Horton Plaza Redevelopment Project and in July of 2004 funded its remaining commitment of \$33 million from the Centre City Redevelopment Project. All funds from these bond sales have been expended and/or committed primarily for projects outside the downtown area. At this time, it is anticipated that an additional \$30 million from the Centre City Redevelopment Project will be financed with the proposed sale of tax allocation housing bonds to facilitate additional low- and moderate-income housing projects primarily in the Centre City area.

The proposed tax allocation bond issue will consist of two elements:

- The first element will provide funds for the FY06 Budget. Certain public projects are funded from the Series 2006A bonds which are tax-exempt and secured with the 80% tax increment revenues.
- The second element is a housing tax allocation bond Series 2006B secured from the 20% Low and Moderate Income Housing Funds. These bonds are taxable as a result of the nature of agreements entered into and the assisting of private development.

Par value of Series 2006A (tax-exempt) and Series 2006B (taxable) is estimated at \$76 million and \$34.3 million, respectively, producing net proceeds of approximately \$70 million for project activities and providing \$30 million of funds for low- and moderate- income housing projects. Interest rates on the bonds will range from 3.4% to 4.8% on Series 2006A and 5.2% to 6% on the Series 2006B, based on current market conditions. The interest rates above assume the Agency's ability to obtain bond insurance which will provide for an AAA rating.

The proposed bond sale requires approval of various documents by the Agency and a resolution by City Council authorizing the Agency to sell bonds. The actions required include the adoption of resolutions approving the issuance of Series 2006A, Series 2006B and approval of the following preliminary documents:

- Preliminary Official Statement - A detailed offering circular informing potential bonds purchasers of all relevant information as to the nature of the obligations, the project to be financed, and the security of the bonds for each bond issue.
- Trust Indentures - Trust Indentures between the Agency and JPMorgan Trust Company, N.A., as trustee providing for the terms and conditions of the Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2006A and Tax Allocation Housing Bonds, Series 2006B.
- Continuing Disclosure Agreements - Agreements by the Agency for the benefit of the bondholders to disclose certain financial and operating data each year pursuant to Rule 15c2-

12(b)(5) of the Securities and Exchange Act for each bond issue (Appendix F of the Preliminary Official Statement).

- Purchase Contracts - Bond Purchase Agreements between the Agency, the Public Facilities Financing Authority, and RBC Capital Markets and E. J. De La Rosa & Co., Inc. ("Underwriters") setting forth the terms and conditions in which the bonds will be sold to the Underwriters for each bond issue.

The City Council, in a companion item, is required to adopt a resolution authorizing the Agency to issue bonds. Presently, interest rates are favorable and it is recommended that the proposed tax allocation bonds be issued. The current schedule anticipates a sale of bonds in late April and a closing in May.

FISCAL CONSIDERATIONS: Approximately \$5.3 million annually on average over a 26-year period from the non-housing tax increment will be used to pay for debt service on the Series 2006A. In addition, approximately \$2.6 million annually from the 20% low- and moderate-income housing funds will be utilized for a period of 25 years for debt service on Series 2006B.

The following table reflects a preliminary three-year cash flow of the Centre City Redevelopment Project using tax increment revenue excluding growth from new development and deducting existing and proposed debt service and other obligations, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

	(In Millions)		
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<u>NON-HOUSING TAX INCREMENT</u> ¹⁾	\$52.9	\$53.3	\$54.4
Less:			
Existing Debt Service, Tax			
Sharing and Other Obligations	\$35.5	\$31.6	\$32.5
Proposed Debt Service			
Series 2006A	\$ ---	\$ 5.4	\$ 4.4
Remaining Balance after Existing and Proposed Debt Service	<u>\$17.4</u>	<u>\$16.3</u>	<u>\$17.5</u>
 <u>HOUSING TAX INCREMENT</u> ¹⁾	 \$13.4	 \$13.5	 \$13.7

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Less:			
Existing Debt Service			
Series 2004C and 2004D	\$ 3.0	\$ 3.0	\$ 3.0
Proposed Debt Service			
Series 2006B	<u>\$ ---</u>	<u>\$ 2.6</u>	<u>\$ 2.6</u>
Remaining Balance after Existing and Proposed Debt Service	<u>\$10.4</u>	<u>\$ 7.9</u>	<u>\$ 8.1</u>

¹⁾ Per Katz Hollis Report dated November 2006. Based on current assessed values and 2% escalation.

PREVIOUS AGENCY and/or COMMITTEE ACTION: The Centre City Development Corporation voted 4-0 in favor of this item at its February 22, 2006 meeting. The Disclosure Practices Working Group is scheduled to hear this item in late February.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Not applicable.

KEY STAKEHOLDERS & PROJECTED IMPACTS: All downtown residences and businesses will benefit from an enhanced quality of life resulting from the public improvements implemented with this financing.

Respectfully submitted,

Frank J. Alessi
Vice President and Chief Financial Officer

Nancy Graham
President

Attachment(s):
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